Mortgages

Chiltern CONSULTANCY
INDEPENDENT FINANCIAL ADVISERS

The Chiltern Guide to Mortgages

Qualifying for a mortgage can be a complicated affair and some first-time buyers may find it daunting.
It is important to choose the correct lender and not to pay a higher rate than necessary.
That means that for some buyers, waiting to save more for a deposit can ultimately save many thousands of pounds on the annual mortgage bill.
By getting to know the process of how a mortgage works and what is required by the lenders, it is possible both to secure a lower interest rate and to increase the chances of being accepted for an appropriately sized loan.
A major difficulty with banks today is that they constantly change their lending criteria.
To get a mortgage, the majority of applicants will need a good deposit, a clean credit history and a decent income.
For many first-time buyers the support of their parents may make the difference between getting a mortgage or not.
Not only do you need to consider which mortgage is best for you, you also need to think about which interest rate options are most likely to suit your needs.
Sometimes people get into debt through no fault of their own and, even if they have been to blame, want to sort things out.
Fortunately, there are now a relatively large group of lenders willing to provide adverse credit mortgages and this short guide will help you understand what to expect.

Adverse Credit Mortgages

In their ideal world, lenders would lend only to those with faultless credit histories, perfect work records and adequate deposits.
But money problems can affect anyone.
Adverse credit problems can be linked to a loan default, a county court judgement or bankruptcy.
Sometimes people get into debt through no fault of their own and, even if they have been to blame, want to sort things out.
Certainly no-one taking out a mortgage wants to see their property repossessed.
Thankfully, some lenders are willing to provide adverse credit mortgages.
Deals are unlikely to match standard mortgages; lenders in the adverse credit market (also known as 'sub prime' or 'non-conforming') will usually charge higher rates.
Most lenders will cut the interest rate if borrowers keep up a good payment record.
And, after three years, it may be possible to switch to a standard loan.
Your application will be thoroughly vetted and the interest rate set according to the ‘risk’ you pose (in the eyes of the lender).
You may also be subject to early repayment charges but these should cease to apply after three years.

You may have to pay an early repayment charge to your existing lender if you remortgage.

We will charge a fee of £100 payable (non-refundable) at the outset and typically a further £595 payable (non-refundable) when you apply for a mortgage.
We will also be paid commission from the lender and any such commission will be disclosed to you in writing.

Please note: Your home may be repossessed if you do not keep up repayments on your mortgage.

Re-Mortgaging

This means switching your mortgage to another deal – often with another lender.
Most people switch mortgages because it will work out cheaper for them.
For example, the introductory discounted interest rate may have finished with your current lender, and you might get a discount, or a lower APR, with another lender.
Other people re-mortgage to consolidate their debts.
It is worth noting that a re-mortgage isn't always the best option.
Even if the lender you are considering switching to is offering a lower APR (Annual Percentage Rate), it doesn't necessarily mean you'll pay less overall.
For instance, the new lender may charge you for valuation and solicitors fees, even if you have already paid these for your mortgage with your current lender.
If you plan to switch mortgage, remember to look at the overall repayment period too.
You may be able to pay less monthly, but check the final repayment date of the mortgage.
It may be longer than your current deal.
Re-mortgaging doesn't always mean switching to another lender.
You may be able to find a new mortgage deal with your current lender – and it may even work out cheaper to do so. In fact, many lenders allow you to switch your mortgage deal quite frequently.

Securing short term debts against your home could increase the term over which they are paid and therefore increase the overall amount payable.
You may have to pay an early repayment charge to your existing lender if you re-mortgage.

Please note: Think carefully before securing other debts against your home.
Your home may be repossessed if you do not keep up repayments on your mortgage

Self Build Mortgage

The main difference between a self build mortgage and a house purchase mortgage is that with a self build mortgage money is released in stages as the build progresses rather than as a single amount.
This short guide explains further.
With a self build mortgage, money is released in stages as the build progresses.
Some lenders will lend you money to purchase land - typically 75% of the purchase price or value (whichever is lowest).
After this, the money for the build is released in stages. These stages can be fixed or flexible, depending on the lender, but usually there are five.
There are two methods by which the money can be released during the build – at the end of each stage (known as arrears stage payments) or at the start of each stage (advance stage payments).
With the arrears stage payment method, money is released after a valuer has visited the site and confirmed completion of the stage.
This can cause some self-builders cash flow difficulties.
The advance stage payment method works in the opposite way, with money released at the beginning of a given stage, before work starts.
This method has become popular as it provides positive cash flow during the build, making it easier to stay in your current house while the build progresses.
The stages of a build depend on whether or not you are building a traditional (brick and block house), a timber frame construction or if you are renovating or converting an existing property.

Buy to Let Mortgages

These types of mortgages are designed for property investors and private landlords, who do not intend to live in the purchased property.

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Buying additional property for the purpose of letting it to earn rental income can be risky and complicated since there is no guarantee that house prices will rise nor that rental income will be uninterrupted.

That said, letting a second property to tenants could return respectable financial rewards over the longer term, but it's important to properly consider the risks, as well as rewards, involved in 'Buy to Let' first.

When buying a rental property, you will need to decide whether your investment objective is income or capital growth. Are you looking to cover the monthly costs and perhaps make a profit to supplement your income? Or, are you looking to make a profit later upon the sale of the property, with the assumption your property's value will increase in value over time?

The decision may affect the type of property you purchase, its location, and also the risk involved since there is no guarantee that property prices will rise. If you can't buy the property outright you will need to consider a Buy to Let mortgage. When it comes to this type of mortgage there are several differences to be aware of. Normally a lender’s decision about whether to offer a mortgage or not, will be based on the rental potential of the property as well as your own income, though in some cases, your income may not be considered at all. Usually, a minimum of 20% to 30% of the property's value is required as deposit, which is often higher than the deposit required for other types of mortgage, and you can expect Buy to Let mortgages to have higher interest rates applicable to them.

As well as mortgage costs, potential landlords should carefully consider the costs of owning the rental property itself. These additional costs may include:

Property Maintenance. The upkeep of the property itself, such as repairs to appliances, and redecoration that may be required before a property can be let to new tenants.

Letting Agent fees. Though it varies, letting agents normally charge around 10% of the monthly rental income for managing tenants. If you need full management of your property, it is not unusual for these costs to be much higher, typically around 15% of monthly rent.

Ground Rent/Service Charges. These costs only apply to leasehold properties.

Legal insurance. A wise precaution in the event that you need to evict tenants, say for example in the event of non-payment of rent, anti-social behaviour or damage to the property.

Legal insurance is intended to cover costs involved in pursuing eviction.

Buildings /Contents Insurance. The property will need buildings insurance, and any furnishings provided as part of the rental agreement will also need to be insured with a suitable contents insurance policy.

Furnishings. If the property is to be let as furnished then you'll need to consider the initial cost of providing the items needed to furnish the property.

Appliance Safety and Inspection. Certain appliances will need to be regularly inspected and serviced to ensure they are safe to use and compliant with current regulations.

Examples include Gas Boilers and Gas Fires.

When choosing a letting agent to act on your behalf, it is wise to choose one that is a member of The Association of Residential Letting Agents (ARLA).

All members of ARLA participate in a bonding scheme to protect both rental income and tenants’ deposits. You can visit the ARLA website at www.arla.co.uk.

Please note: When visiting this site you will moving to a website not regulated by the Financial Conduct Authority.

We give no endorsement and accept no responsibility for the accuracy or content of any sites linked to from this site for further information on becoming a private landlord.

Current Account Mortgage

With a Current Account Mortgage (CAM), you run all of your finances through a single account , your mortgage, current account, savings and personal loans .

Any unspent income you have in your current account at the end of the month is automatically taken off the mortgage debt you owe. So say your monthly take-home pay is £2,000 and your total outgoings for the month are £1,800, the £200 left over comes straight off your mortgage, and you are immediately paying interest on a smaller amount of debt. And any savings you have are offset against any borrowings. Plus you can access your savings or overpayments (within limits) whenever you like without having to inform your lender. Again, a CAM has all the features of a flexible mortgage, with added convenience because all of your money automatically works harder for you.

CAMs genuinely allow the customer to take full responsibility for repaying their mortgage. CAMs also permit the more financially aware borrower to save time and money over the term of their loan. The aim is that the mortgage will be repaid before the borrower retires. As long as that is on course, there is nothing much wrong with a borrower increasing their borrowings by withdrawing from the current account. For this purpose, the lender will issue a chequebook to enable money to be withdrawn for any purpose. The only rule is that the maximum borrowing limit is not exceeded. Other rules for setting up a current account mortgage are normally that the lender will require a borrower to pay their salary into the account each month.

The lender will calculate interest on a daily basis. Every month, money is paid in and money would be taken out (as the account is used as a current account this is normal). At the end of the month, any money that is left over after income minus what goes out reduces the balance outstanding on the account. As long as this outstanding balance is regularly reduced, it is like making overpayments into an ordinary flexible mortgage. This allows you to potentially save thousands of pounds during the life of the mortgage and bring it to an end earlier.

In general, you will find that you pay for the flexibility of a current account mortgage through being charged a higher rate of interest than more traditional mortgages. The lenders are taking a risk both ways with this mortgage. They will make less money on the mortgage if you pay it back earlier but might not get the money back if you are unable to discipline yourself. It works both ways, and if you get it right, in particular the management of it, then it will benefit both the lender and the borrower.

It is important to make sure before you take out a current account mortgage that you are the right person for it.

A current account mortgage requires a great deal of discipline, not only in order to enjoy the savings that are possible should the overpayments described above happen, but also to just pay off the balance itself before you retire.
Think about it, you have potentially many thousands of pounds in your current account always available to you, without needing a reason to avail yourself of it.
Can you discipline yourself to make sure that balance is continually reducing?

Lifetime Mortgages

Are a popular means for homeowners over 55 to unlock some of the value in their homes. Thousands of people in the UK already choose this method to supplement their retirement income. A lifetime mortgage is a way of borrowing a set amount of money against the value of your home, in the form of a long-term loan, and without the need to move. You continue to own your own home, for the duration of the plan and as long as you are living in it - you'll also be responsible for keeping your home in good repair. The loan is paid back using the proceeds from the eventual sale of your property. This is usually when you die or have moved into permanent long-term care.

The money released can be used for whatever you wish (so long as any outstanding mortgage has been paid off). You should be aware that taking out a lifetime mortgage could reduce your eligibility to means-tested benefits and could affect your tax position.

Also, as the interest is added to the loan, there may be no value left in your home at the end of the plan. Taking out a lifetime mortgage may also reduce the options that you have for moving or selling your home. You should talk to your Financial Adviser and/or solicitor about this if you're at all unsure.

To understand the features and risks, ask for a personalised illustration.

A Lifetime Mortgage will reduce the value of your estate, will not be suitable for everyone and may affect your entitlement to state benefits.

Home Reversion Plans

With these types of plans you sell your entire home, or a proportion of it, to an investment company. While you no longer fully own your home, you continue to live there as a tenant for the rest of your life. You will live in your home rent-free, or you may have to pay a nominal rent, perhaps £1 a month. If a scheme is purchased jointly, both partners have the right to live in the house for the rest of their lives, even if one partner should die. You can choose to receive a cash lump sum, or a monthly annuity income, or both.

When you take out a home reversion plan you will not receive the full 'market value' of the property, but a percentage of it according to your age. The older you are the more you will get.

When the property is sold on your death, the investment company receives a share of the proceeds, in proportion to the amount of the property you sold to them.

If you sold them the whole property they will get all of the proceeds, or if you sold them a 75 per cent share of your home they will receive 75 per cent of money resulting from the sale.

Remember that if you sell all of your home, and it becomes more valuable in the future, the increase in value will benefit only the investment company.

If you retain a share, your estate will benefit from part of any increase in the value of your home.

Before you think about equity release, you should also consider your other options, moving to a smaller property or one of a lower value will give you the maximum value from your home.

You may also have other savings and assets that could help fund your retirement.

Equity Release Schemes may affect your eligibility to means tested benefits.

Equity release products involve borrowing against or selling all or part of your home.

There may be more suitable methods of raising the funds you need.

Equity release schemes may work out more expensive in the long term than downsizing to a smaller property.

This is a Home Reversion Plan.

To understand the features and risks, ask for a personalised illustration.

A Lifetime Mortgage will reduce the value of your estate, will not be suitable for everyone and may affect your entitlement to state benefits.

First Time Buyers

Buying a home for the first time can be a daunting prospect. There's so many things to think about and that's before you've even considered the many mortgage products, rates and lenders to choose from. To help you reduce the stress, here are our **Top Tips for First Time Buyers**.

Budget accurately: Be realistic about how much you can afford to spend on a house, and ensure the intended mortgage is affordable. Don't forget to allow for furnishings, and remember older properties may require extensive work, such as re-flooring, tiling or renewing the wiring. Make sure you budget for these likely expenses in addition to the purchase price, along with other fees such as conveyancing, removals and stamp duty.

Ask for a second opinion: When buying for the first time, there may be a number of details to look out for that you may not be aware of. Always take an experienced home buyer with you when viewing a property. If this is difficult to arrange, make sure you at least get some assistance at the second viewing stage.

Remember the bills: If you have been used to living at home with your parents, remember to budget for expenses such as utility bills, building and contents insurances and other home repairs.

Consider Council Tax: Make sure you know what the likely council tax charge will be in your new property. The selling agent should be able to help you.

Look at the local area: Even if you do not have children, remember that property in the catchment area of good local schools will always be much easier to sell on (though it may be reflected in a higher purchase price). Also, write down a list of local amenities which are important to you (shops, gym, cinema etc). Before making any final decision about where to move to, take a stroll or bike ride around the local area. Visit the location at weekends to check additional cars and parking in the road.

Speak to your motor insurer: If you have a car, your insurance premium may increase if you move to an area with a higher crime rate, or are trading off-street parking for on-street parking.

Check transport links: Consider the availability of public transport services, like local bus routes or the frequency of train services from your nearest station. Even if you drive everywhere, this information will be useful for anyone coming to visit you who doesn't.

Check connectivity: If you are a heavy internet user, check the broadband speeds available in the area you're moving to. The selling agent should be able to provide this information.

Think about commuting time: Commuting can be one of the biggest household expenses. Since you're likely to be spending much more time on domestic chores and/or DIY, minimising your commuting distance could be important. If property is more expensive nearer to your place of work, make sure you weigh up this additional expense when compared to the costs and time of commuting.

Flexible Mortgages

Flexible mortgages recalculate the outstanding capital and interest (the amount you owe) on a daily basis. This allows you to make overpayments when you have money to spare, and see an immediate reduction in your loan. Some also allow you to make underpayments when finances are tight, which will increase the interest you have to pay.
They may even allow you to take repayment holidays a complete break from making payments as long as a reserve amount of money is in your account.
Any unpaid interest will be added to the outstanding mortgage, any overpayment will reduce it. Some flexible mortgages have the facility to draw down additional funds, to a pre-agreed limit.

We will charge a fee of £250 payable (non-refundable) at the outset and typically a further £750 payable (non-refundable) when you apply for a mortgage. We will also be paid commission from the lender and any such commission will be disclosed to you in writing.

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To arrange an informal, no obligation meeting at home, your workplace or at our office in High Wycombe, please contact us

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PLEASE NOTE:
The information contained within this brochure is intended to provide a general appreciation of the topic and it is not advice.

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